INDUSTRY CIRCULAR

DEPARTMENT OF THE TREASURY
Bureau of Alcohol, Tobacco and Firearms
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INCREASE IN FEDERAL EXCISE TAX ON ALCOHOLIC BEVERAGES, TOBACCO PRODUCTS, AND IMPORTED PERFUMES

Proprietors of Distilled Spirits Plants, Bonded Wine Premises, Taxpaid Wine Bottling Houses, Breweries, Tobacco Products Manufacturers, Manufacturers Of Cigarette Papers And Tubes, Imported Perfume Wholesalers, Dealers Of Alcoholic Beverages and Others Concerned:

Purpose. This Industry Circular is to inform you of a Treasury decision, soon to be published in the FEDERAL REGISTER, which will amend 27 CFR Parts 19, 24, 25, 170, 250, 251, 270, 275, 285, 290, 295, and 296 to comply with the provisions of the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508, 104 Stat., 1388).

Increase in Federal excise tax rates. Public Law 101-508, 104 Stat., 1388, enacted on November 5, 1990, increased the rate of Federal excise tax on certain alcoholic beverages, tobacco products, cigarette papers and tubes, and imported perfumes containing ethyl alcohol effective January 1, 1991. All such products **removed** from bonded premises on or after the effective date will be subject to an increased tax rate. The old and new tax rates are set forth in Exhibit 1. There are several provisions of the new law which will directly affect businesses which manufacture, import, and distribute these articles. Outlined below are some of the main provisions of the bill.

Meaning of terms. In the following discussion, the terms **"proof gallon," "wine gallon," "gallon,"** and **"barrels"** are used. A **proof gallon (p.g.)** is a gallon of liquid at 60 degrees Fahrenheit which contains 50 percent by volume ethyl alcohol having a specific gravity of .7939 (referred to water at 60 degrees Fahrenheit as unity), or the alcoholic equivalent thereof. For example, 1 gallon of 200 proof spirits would equal 2 proof gallons; 10 gallons of 80 proof spirits would equal 8 proof gallons. Both a **wine gallon (w.g.) and gallon** are defined as a standard U.S. volumetric gallon (231 cubic inches). For beer, a **barrel (bbl)** is equivalent to 31 U.S. volumetric gallons.

Reduced tax rate for small domestic wine producers. A proprietor who produces not more than 250,000 gallons of wine during the calendar year is allowed a credit of up to

90 cents per wine gallon on the first 100,000 gallons (other than champagne and other sparkling wine) tax determined during the calendar year. The wine must have been **produced** at qualified facilities in the United States. Control groups or proprietors who operate more than one bonded premises must include the **combined production** of wine at all their bonded wine premises in determining eligibility for credit on taxable removals of wine from these premises. For the purpose of determining if a proprietor's production is within the 250,000 gallon limitation, in addition to wine produced by fermentation, production includes any increase in the volume of such wine due to the winery operations of amelioration, wine spirits addition, sweetening, the production of formula wine (including wine coolers), and wine produced outside the United States by the same proprietor or control group. Production of champagne and other sparkling wines is included for purposes of determining whether total production of a winery exceeds 250,000 gallons. A proprietor who produces the wine used for champagne or other sparkling wine production does not count such wine as produced twice.

The 90 cent per gallon tax credit is reduced by 1 percent for every 1,000 gallons of wine produced over and above the 150,000 gallon level during a given calendar year. When production reaches 250,000 wine gallons, the small producer tax credit has decreased to zero. Examples for computing this credit are found in Exhibit 2.

Wine tax credit limitation. In order to limit the wine tax credit's application and ensure that the credit is not utilized by ineligible proprietors, section 11201 of Public Law 101-508, 104 Stat., 1388, vests authority in the Secretary of the Treasury to prevent a small winery credit from benefiting any proprietor who produces more than 250,000 gallons of wine during a calendar year. For example, if wine is transferred in bond from a winery which produces more than 250,000 gallons, Winery A, a subsequent removal from bond of such wine (as a product of Winery A) by an otherwise eligible receiving winery would not be allowed to reflect the reduced rate of tax. In such a case, the increased rate of tax would apply to such a product at the time of its removal, since otherwise the credit would benefit an ineligible winery. That is, without the denial of the use of the credit an ineligible winery would be allowed to market its products at the reduced rate of tax. The regulations provide that each regional director (compliance) will deny use of the credit where an ineligible proprietor would benefit.

Reduced tax rate for small domestic brewers. Small brewers who produce no more than 2,000,000 barrels of beer are allowed to pay a reduced tax rate of $7 a barrel for the first 60,000 barrels taxably removed. This provision of Public Law 101-508, 104 Stat., 1388, retains the small brewer reduced tax rate as it existed previously without change. Removals of over 60,000 barrels must be taxpaid at the $18 per barrel rate.

Beer tax credit limitation. A regulatory provision similar to that discussed above under "Wine tax credit limitation," prevents the reduced rate of tax for small brewers from benefiting ineligible proprietors.

Effect on bond coverage. Producers who do not already have a maximum bond, should re-evaluate bond coverage. The increased tax rate may increase the liability which must be covered by the operations or withdrawal bonds. Proprietors should recompute the coverage needed, using the method described in regulations covering the operations and the new tax rates, and file, if necessary, a strengthening or superseding bond to bring the coverage into compliance.

FLOOR STOCKS TAX

As a transition to the new tax rates, the law imposes a floor stocks tax on alcoholic beverages, cigarettes and, imported perfumes held for sale on January 1, 1991, (except cigarettes held in vending machines, champagne and other sparkling wine, and imported perfumes held at retail establishments). In addition, a second floor stocks tax will be due in 1993 for cigarettes held for sale on January 1, 1993.

A floor stocks tax is a one-time excise tax placed on a commodity undergoing a tax increase. The amount of the tax is equal to the difference between the old and new tax rates. In this case the rates are, **$1.00 per proof gallon for distilled spirits, up to $0.90 per gallon for wine, $9.00 per barrel for beer, $2.00 per 1,000 for small cigarettes, $4.20 per 1,000 for large cigarettes, and $1.00**

per gallon on imported perfume. These rates do not apply to champagne and other sparkling wine or to non-alcoholic or alcohol-free beer or wine. Also, cigarettes more than 6.5 inches long will be taxed at the small cigarette rate counting each 2.75 inches, or fraction thereof, as one cigarette.

The floor stocks tax imposed by Public Law 101-508, 104 Stat., 1388, applies to alcoholic beverages and cigarettes held for sale by wholesale and retail dealers as well as to taxpaid or tax determined products held at the producing/warehouse facilities. Tobacco products other than cigarettes are exempt from the floor stocks tax.

Floor stocks tax inventory. Liability for the floor stocks tax must be established either by a physical inventory or a record (book) inventory supported by the appropriate source records. Only persons with adequate records of receipt and disposition may take a book inventory. These records (such as invoices) must include (1) the name and address of the consignor and consignee, (2) date of receipt or disposition, (3) brand name, (4) kind of spirits, wine, beer, cigarettes (large or small), perfume, etc., (5) quantity and, (6) alcohol content of spirits. All articles held for sale, subject to floor stocks tax, should be inventoried between the end of the last business day of December, 1990, and the beginning of the first business day in January, 1991. The inventory may be taken anytime between December 26, 1990, and January 10, 1991. However, the inventory must be reconciled (adjusted) to the beginning of business, January 1, 1991. This reconciliation must reflect the inventory as if it had actually been taken at the beginning of business on January 1.

In-transit shipments. All merchandise subject to floor stocks tax which is **in-transit** must be inventoried and the tax paid by the person who owns the merchandise on January 1, 1991. Also, a second floor stocks tax inventory must be taken and tax paid in 1993 for cigarette dealers who own cigarettes **in-transit** on January 1, 1993. Generally, with FOB shipments the shipper retains title until delivery. All levels (producers, wholesalers and retailers) of the floor stocks tax affected industries should be aware that ATF will be checking in-transit shipments, as well as on hand inventories, for payment of floor stocks tax.

Unmerchantable products are not taxable. In this context, unmerchantable means any product which is being returned through the merchandising chain because of some defect. (Products which are being returned because of poor market demand or to reduce inventory are **not** considered unmerchantable.) All persons holding products for sale on January 1, 1991, (also January 1, 1993, for cigarettes) must physically segregate any unmerchantable products and include them in a separate section of their inventory record. Unmerchantable products should not be included when determining exemption or credit limits. If for any reason the products are not subsequently returned or destroyed, floor stocks tax must be paid on them and the taxpayer must file an amended floor stocks tax return. Failure to comply with these provisions can result in the assessment of interest and penalties.

Exemptions and credits. Public Law 101-508, 104 Stat., 1388, contains provisions designed to remedy some of the adverse aspects of the tax as it affects wholesale and retail liquor dealers. If the total amount of beverage alcohol (**distilled spirits, beer, and wine,**) available for sale on January 1, 1991, does not exceed **500 gallons**, the proprietor is exempt from floor stocks tax. The same **500 gallon** exemption that applies to beverage alcohol also applies to **imported perfume** wholesalers. Proprietors holding for sale both alcoholic beverages and imported perfume, subject to floor stocks tax, must combine the gallonage of both products when determining qualification for the 500 gallon exemption. All imported perfume at retail establishments is exempt. Also, cigarettes held in any vending machine are exempt from floor stocks tax as well as the **first 30,000 cigarettes** held for sale by a dealer.

Dealers with more than the above specified amounts on hand are allowed dollar credits that may be taken on the tax return. The credits are **(1) $240 for distilled spirits and perfume, (2) $270 for wine, (3) $87 for beer and, $60 for cigarettes.**

Small domestic wine producer credit. Basically, the new credit against wine tax for small domestic producers discussed earlier is applied to the floor stocks tax on taxpaid or tax determined wine held on wine premises on January 1, 1991. Wine producers must apply the new rules to **1990 production** for the purposes of computing floor stocks tax credit. In other words, small wine producers may take a tax credit on their 1991 floor stocks tax return **based on their 1990 production and taxable removals.** If production is less than 250,000 gallons in 1990, the first 100,000 gallons (other than champagne and other sparkling wine) **removed taxpaid or tax determined** during 1990 would have been eligible for the tax credit. The maximum 90 cent tax credit is reduced by 1 percent for every 1,000 gallons of wine **produced** in excess of 150,000 gallons during 1990. To be eligible for this tax credit, taxpaid or tax determined wine must be treated as having been removed on **December 31, 1990.** For example, a winery proprietor producing less than 150,000 gallons of wine during the calendar year who has 30,000 gallons of taxpaid wine on hand out of a total of 130,000 gallons removed in calendar year 1990, cannot claim the credit. Such winery proprietor must pay the full 90 cents per gallon for all wine held in taxpaid status. A worksheet for determining the small domestic wine producer credit is provided as a part of the Floor Stocks Tax Return package.

<u>Small domestic brewer credit</u>. Any taxpaid or tax determined beer held on brewery premises on January 1, 1991, which would have been taxpaid at the **small brewery** reduced rate of **$7 a barrel** if it had been removed on December 31, 1990, is exempt from floor stocks tax. This exemption is available only to brewers who produced no more than 2,000,000 barrels of beer in 1990. A worksheet for determining the small domestic beer producer exemption is provided as a part of the Floor Stocks Tax Return package.

<u>Controlled groups</u>. All members of a controlled group are considered as a single taxpayer for purposes of the exemption allowance and tax credits. Basically, a "Controlled Group" means any group of incorporated or non-incorporated businesses that have common ownership interests (including individuals, partnerships, corporations, and States or political subdivisions of States). A business is considered to be part of a controlled group if more than 50 percent of the business is

owned either by, or in common with, another business (or businesses).

Floor Stocks Tax Return, ATF F 5000.28. All proprietors holding, for sale, articles subject to floor stocks tax on January 1, 1991, must complete and file a Floor Stocks Tax Return, ATF F 5000.28. In addition, any cigarette dealer holding cigarettes for sale on January 1, 1993, must complete and file a Floor Stocks Tax Return based on an inventory taken on January 1, 1993. Taxpayers qualifying for the 500 gallon exemption and the 30,000 cigarette exemption need only make a record of their inventory and complete parts I, II, and V of ATF F 5000.28. A detailed information and general instruction pamphlet will be sent out with the Floor Stocks Tax Return form.

Proprietors will need to do some mathematical conversions since commercial packages of taxable products do not always use the same units of measure as used in the computation of the tax. A chart of the basic conversion factors is being provided to proprietors as part of the tax return package. To impose a minimal burden on proprietors, the conversion factors have been shortened for converting from liters to gallons. Proprietors who normally file monthly reports with ATF may continue to use the customary conversion factors used for their regular reports. There is no need to do conversions twice.

Proprietors should convert to taxable units at the time the inventory is taken, rather than waiting until making tax payments. Upon completion of the conversion of the inventory to taxable units, the taxpayer must enter the inventory for each product on the lines provided on the tax return, ATF F 5000.28, and multiply by the applicable tax rates. Tax credits are deducted. Controlled groups get only one such credit for all the associated businesses. The credit may be taken in full by one member of the controlled group, or divided among the members. For further information on controlled groups or tax returns covering more than one location, and associated recordkeeping requirements, see 27 CFR 170.114(b), (c), and 27 CFR 170.116.

Filing and payment dates. Although the inventory is required on **January 1, 1991**, proprietors are not required to file the floor stocks tax return and submit the remittance until June 30, 1991. Since that date falls on a Sunday, the return and remittance are due on Friday, **June 28, 1991.** For cigarette dealers holding cigarettes for sale on **January 1, 1993**, a floor stocks tax return and remittance are due on **June 30, 1993.**

Electronic Fund Transfer. Producers of alcoholic beverages and tobacco products who presently pay their Federal excise tax by Electronic Fund Transfer (EFT) will be required to make their floor stocks tax payment by EFT. **To insure proper credit, a separate EFT transfer should be made for the floor stocks tax. It should not be combined with the regular excise tax remittance.**

The increase in tax rates may place a taxpayer in the EFT category for the first time. As a general rule, any taxpayer who pays more than $5,000,000 in alcoholic beverage or tobacco products excise taxes during a calendar year is required to pay their taxes by EFT the following year. It is the taxpayer's responsibility to determine if EFT payment is necessary and, if it is, to begin paying taxes by EFT. If you need additional information or instructions for EFT payments, contact your local ATF office.

Retention of records. The physical inventory will be recorded in writing as it is being taken, and retained at the place of business to which the inventory pertains for a period of at least **three years** after the filing date of the Floor Stocks Tax Return. Similarly, proprietors using a record inventory must retain the summary and supporting records for a period of **three years** after the filing date of the Floor Stocks Tax Return. The record must be made available at each proprietor's place of business for inspection by ATF officers. Civil and criminal penalties are imposed by law for failure to file, failure to pay, failure to allow officers access to premises where taxable articles are stored, failure to furnish officers access to records pertinent to tax liabilities, filing a fraudulent return, etc.

If an ATF officer discovers evidence of tax liability and the taxpayer fails or refuses to make or amend a return, or to voluntarily pay the tax due, the ATF officer has the right to use the information available to prepare and sign a return for the taxpayer. On the basis of that return, the tax, along with appropriate penalties and interest, will be assessed. It will then be the taxpayer's responsibility to prove that the amount is not due.

Inquiries. If you have any questions, please contact the following ATF regional office in your area:

Taxpayers in Illinois, Indiana, Kentucky, Michigan, Minnesota, North Dakota, Ohio, South Dakota, Wisconsin, West Virginia:

Bureau of Alcohol, Tobacco and Firearms
550 Main Street, Room 6519
Federal Office Bldg.
Cincinnati, OH 45202
(513) 684-3335
FAX (513) 684-3168

Taxpayers in Connecticut, District of Columbia, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont:

Bureau of Alcohol, Tobacco and Firearms
841 Chestnut Street
Room 380
Philadelphia, PA 19107
(215) 597-2238
FAX (215) 597-7255

Taxpayers in Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia:

Bureau of Alcohol, Tobacco and Firearms
2600 Century Parkway NE, Suite 305
Atlanta, GA 30345
(404) 679-5080
FAX (404) 679-5099

Taxpayers in Arkansas, Colorado, Iowa, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, Texas, Wyoming:

Bureau of Alcohol, Tobacco and Firearms
1114 Commerce Street
7th Floor
Dallas, TX 75242
(214) 767-2277
FAX (214) 767-2750

Taxpayers in Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington:

Bureau of Alcohol, Tobacco and Firearms
221 Main Street
11th Floor
San Francisco, CA 94105
(415) 744-7011
FAX (415) 744-9443

Stephen E. Higgins
Director

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Exhibit 1

NEW EXCISE TAX RATES EFFECTIVE JAN. 1, 1991

Note: In the following tables, a proof gallon (**p.g.**) is a gallon of liquid at 60 degrees Fahrenheit which contains 50 percent by volume ethyl alcohol having a specific gravity of .7939 (referred to water at 60 degrees Fahrenheit as unity), or the alcoholic equivalent thereof. For example, 1 gallon of 200 proof spirits would equal 2 proof gallons; 10 gallons of 80 proof spirits would equal 8 proof gallons. A wine gallon (**w.g.**) is a standard U.S. volumetric gallon. For beer, the barrel (**bbl**) equivalent is 31 U.S. volumetric gallons.

DISTILLED SPIRITS

Product	**Old Rate**	**New Rate**
Distilled Spts.	$12.50 per p.g.	$13.50 per p.g.
Imported Perfume	$12.50 per w.g.	$13.50 per w.g.

Wine and flavor credits on distilled spirits products. The 26 U.S.C. section 5010 credit relating to the flavors content of distilled spirits will also be based on the $13.50 rate. **Only the un-reduced wine rate may be used in computing wine credits.**

WINE

Type of Wine	Old Rate	New Rate
Not more than 14%	.17 per w.g.	1.07 per w.g.
More than 14%, but not more than 21%	.67 per w.g.	1.57 per w.g.
More than 21%, but not more than 24%	2.25 per w.g.	3.15 per w.g.
Champagne and other sparkling wines	3.40 per w.g.	3.40 per w.g.
Artificially carbonated	2.40 per w.g.	3.30 per w.g.

Small wine producer credits are described in the text of the circular.

BEER

Type of Brewer	Old Rate	New Rate
Brewer of over 2 million barrels	$9.00 per bbl.	$18.00 per bbl.
Brewer of not more than 2 million barrels of beer during a calendar year	$7.00 per bbl. on first 60,000 bbls. each year $9.00 per bbl. on additional removals	$7.00 per bbl. on first 60,000 bbls. each year $18.00 per bbl. on additional removals

Brewers who are eligible to pay the reduced rate of tax on beer may, upon filing the notice required by 27 CFR 25.167, pay the reduced rate of tax on beer by semimonthly return, ATF F 5000.24, as provided for in 27 CFR 25.164 or by prepayment return as provided in section 25.175. See also 27 CFR 25.166.

TOBACCO PRODUCTS

Tobacco Product	Old Rate	91-92 Rate	1/1/93 Rate
Small Cigars	$.75 per thousand	$.9375 per thousand	$1.125 per thousand

Large Cigars*	8 1/2% of wholesale not to exceed $20 per thousand	10.625% of price not to exceed $25 per thousand	12.75 of price not to exceed $30 per thousand
Small Cigarettes	$8.00 per thousand	$10.00 per thousand	$12.00 per thousand
Large Cigarettes	$16.80 per thousand	$21.00 per thousand	$25.20 per thousand
Cigarette Papers	1/2 cent /50 papers	0.625 cent /50 papers	0.75 cent /50 papers
Cigarette Tubes	1 cent /50 tubes	1.25 cent /50 tubes	1.5 cent /50 tubes
Smokeless Snuff	24 cents per pound	30 cents per pound	36 cents per pound
Chewing Tobacco	8 cents per pound	10 cents per pound	12 cents per pound
Pipe Tobacco	45 cents per pound	56.25 cents per pound	67.5 cents per pound

* Determination of Price
The rate of tax for large cigars has been based on a percentage of the "wholesale price" as defined in 26 U.S.C. section 5702(m). Effective January 1, 1991, the basis will be a percentage of the "price" for which sold by a manufacturer or importer.

Exhibit 2

Examples Of Small Winery Tax Credit And Reduced Rates

Note: The following examples assume that the wine has an alcoholic content of not more than 14 percent by volume.

Production figures See discussion above under "Reduced tax rate for small domestic wine producers."

Tax Credit Examples

1. Winery A produces 200,000 gallons of table wine in a year and tax determines 75,000 gallons of such wine in the same year. Their excise tax owed is calculated as follows:

200,000 gals. - 150,000 gals. = 50,000 gals. or
(50% credit reduction)

50% of \$0.90 = \$0.45 tax credit rate

\$1.07 excise tax rate
- .45 tax credit rate
\$0.62 reduced excise tax rate

75,000 gals. X \$0.62 per gal. = \$46,500 excise tax

2. Winery B produces 99,000 gallons of table wine in a year and tax determines 150,000 gallons of such wine in the same year. Their excise tax owed would be calculated as follows:

100,000 gals.	@ \$0.17(\$1.07-.90 = 0.17)=	\$17,000
50,000 gals.	@ \$1.07 =	+ \$53,500
150,000 gals.		= \$70,500 excise tax

3. Winery C produces 175,000 gallons of table wine and tax determines 145,000 gallons of such wine in the same year. Their excise tax owed would be calculated as follows:

175,000 gals. - 150,000 gals. = 25,000 gals., or 25% credit reduction; therefore entitled to 75% of the credit

75% of \$0.90 = \$0.675 reduced credit rate

\$1.07 excise tax rate
- .675 tax credit rate
\$0.395 reduced excise tax rate

100,000 gals.	X \$0.395 per gal.	=	\$39,500
45,000 gals.	X \$1.07 per gal.	=	\$48,150
145,000 gals.			\$87,650 excise tax

4. XYZ wineries, a controlled group, produces

45,000 gallons of wine at one facility and 245,000 gallons of wine at the other facility.

The combined production of 290,000 gallons exceeds the 250,000 gallon ceiling for any tax credit. Therefore, all tax determination of such wine in the same calendar year would be made at the full tax rates.

5. <u>Small wine producer exceeding the 150,000 gallon production limitation</u>. A situation may occur in which a proprietor who anticipates qualifying for the full credit for a calendar year finds at some point that **production** will exceed 150,000 gallons. In this instance, the proprietor paid taxes at the reduced rate (new tax rate minus 90 cents) on the first 100,000 gallons **removed.** All tax determinations in excess of 100,000 gallons are paid at the full tax rate without benefit of credit. Once **production** reaches 151,000 gallons, a tax adjustment is required. The credit originally allowed on the first 100,000 gallons decreases by 1 percent for every 1,000 gallons **produced** in excess of 150,000 gallons per year.

In this situation, the proprietor must pay the additional amount owed on all wine on which full credit was taken that year, plus interest computed from the date the excess credit was taken. The underpayment is corrected by an adjustment increasing the tax on the proprietor's tax return, ATF F 5000.24 (Entry 18), not later than the period in which the proprietor's production exceeds the 151,000 gallon limitation.

For example, during tax payment period 11, the **production** at ABC winery reaches 151,000 gallons (1,000 gallons above the 150,000 gallon limitation) and 100,000 gallons have been taxpaid, and the 90 cent credit was deducted. At this point, the 1 percent tax credit reduction for every 1,000 gallons **produced** in excess of 150,000 gallons per year takes effect. In this case, production has exceeded the limit by 1,000 gallons and a 1 percent credit reduction (adjustment increasing tax) must be taken into account when filing ATF F 5000.24 for tax payment period 11. The excise tax rate is calculated as follows:

151,000 gals. - 150,000 gals. = 1,000 gal., (1% credit (reduction)

1% of $0.90 = $0.891 tax credit rate

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  $0.90  (credit taken)
- $0.891 (eligible credit)
= $0.009 (under payment
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100,000 gal. x $0.009 = $900 (additional tax owed)

On tax return ATF F 5000.24 for tax period 11, the additional $900 owed should appear in entry 18 (Adjustments Increasing Amount Due) with an explanation appearing in Schedule A of the form. In addition, interest on the portion of the $900 due on each previous return should be computed from each tax return due date to the date of payment using the applicable interest rates. The accumulated interest should be entered on Schedule A of the tax return.

As production continues to increase, each succeeding tax return will have to be adjusted to take into account the decreasing tax credit allowed. For example, during tax period 12 production figures total 153,000 gallons (2,000 gallons above the 151,000 gallons previously used in computation). A tax adjustment of $1,800 (2 percent reduction of tax credit; $0.891 - $0.873 x 100,000 gal.) will be required, plus interest at the applicable rate for each tax period where an underpayment was made. Each succeeding tax period, the appropriate percentage reduction in tax credit will be computed, along with the interest due, and the figures entered on the tax return for that period. When production reaches 250,000 gallons, the tax credit has decreased to zero.